22ND ANNUAL REPORT 1968

CENTRAL·DEL RIO OILS LIMITED

Central-Del Rio Oils Limited
Two-Year Comparative Summary

Financial	**1968**	**1967**
Income	**$ 9,263,682**	$ 9,589,107
Cash generated	**$ 6,339,012**	$ 6,648,081
Per share	**94c**	99c
Net income	**$ 3,572,992**	$ 3,816,757
Per share	**53c**	57c
Cash dividends paid	**$ 1,617,159**	$ 1,743,223
Per share	**24c**	26c
Shareholders' investment	**$45,067,609**	$43,099,933
Rate of return	**7.93%**	9.56%
Working capital	**$ 1,659,136**	$ 2,357,157
Long term debt	**$ 400,000**	—
Expenditures on lands, exploration and development	**$ 5,414,101**	$ 6,568,116

Operating		
Net oil sales – barrels	**3,474,175**	3,647,354
Daily average – barrels	**9,492**	9,993
Exploratory wells drilled	**45**	46
Successfully completed	**10**	10
Development wells drilled	**15**	8
Successfully completed	**12**	7
Net oil wells owned	**197.12**	197.59
Net gas wells owned	**16.80**	13.32
Net land holdings – acres	**3,107,514**	2,866,755

Central-Del Rio Oils Limited
Directors' Report to the Shareholders

Central-Del Rio's drilling activity in 1968, ranging from Ontario through Saskatchewan, Alberta and British Columbia to the Northwest Territories, was on a slightly larger scale than in the previous year. The Company drilled or took part in the drilling of 60 wells, as against 54 in 1967. Forty-five of the holes drilled during the year were exploratory, resulting in the completion of 6 oil wells and 4 gas wells. Twelve of the 15 development wells were successful, for 9 oil wells and 3 gas wells. CDR's participation in the new oil producers varies from a small overriding royalty to 100% working interest, and the Company owns from 50% to 100% working interest in the gas wells.

Geophysical and other non-drilling exploratory work was not so extensive as in 1967 and land acquisition costs were somewhat lower, with the result that expenditures on lands, exploration and development were down from $6.6 million to $5.4 million. These costs include our total outlay of just under $300,000 on the United Pemetex Ltd. metals exploration project in the Yukon Territory. Some good copper values were obtained in the diamond drilling program carried out on Pemetex properties in the first half of 1968, but the apparently limited extent of mineralization in the tested area prompted our decision not to spend another $1/4 million to exercise an option to continue the work. Central-Del Rio retains a 12½% interest in United Pemetex, now controlled by Silver City Mines Ltd., which has announced its intention to drill on one or more of the anomalies indicated by an induced polarization survey conducted on the lands last summer.

A reduction in output of crude oil from the unitized Weyburn field in southeastern Saskatchewan was approximately offset by new production from the nearby Elswick and Tatagwa properties and from our wells at Rainbow in northwestern Alberta. However, at Flat Lake, on the Saskatchewan-Montana border, conversion of some of the oil producing wells to water injection in a pressure maintenance and secondary recovery program, coupled with the normal primary production decline, caused a temporary but sharp drop in production, which reduced Central-Del Rio's revenues by $1/4 million in 1968. The effect of the Flat Lake waterflood should begin to be felt about a year from now, when production from the field is expected to increase. Crude oil sales for the year aggregated 3,474,175 barrels, as compared with 3,647,354 in 1967.

Our first significant sales of natural gas were made in the year under review. Deliveries from the unitized Ghost Pine field, in southern Alberta, began in the first quarter; and late in the fourth quarter the wells at Tweedie, in east central Alberta, went on stream. Total sales in 1968 were 338,580 Mcf, averaging 925 Mcf per day. While gas sales brought in only a little more than $50,000 revenue, which is lumped with crude oil sales revenue in the financial statements presented with this report, income from this source will be higher in 1969. A good portion of our exploratory work is now devoted to searching for additional gas reserves.

The Company's Saskatchewan lands were reduced by 1/4 million acres in 1968. However, there was an overall increase of 1/4 million acres in our holdings during the year, bringing the total to 3.1 million net acres. This was due mainly to the acquisition of several good-sized blocks in Alberta and the Northwest Territories. Other 1968 changes were not significant, but one subsequent addition to CDR's landspread is notable. Early in January of this year the Company acquired oil and gas permits covering approximately 470,000 acres of Canadian east coast offshore lands located about 40 miles southwest of the western tip of Nova Scotia in an area which is expected to be the scene of drilling activity in 1969.

Because of lower crude oil sales, both gross revenue and cash flow were down more than $300,000,

to $9¼ million and $6⅓ million respectively. Cash generated per share was 94 cents, as against 99 cents in 1967. For the second successive year, expenses were reduced slightly.

After non-cash write-offs totalling $2.9 million for depletion and depreciation, nominally higher in 1968 than in the previous year, operating income was just under $3,450,000, as compared with approximately $3,800,000 in 1967, the difference being roughly equal to the drop in revenue from crude oil sales.

During the year, the Company realized a gain of more than $123,000 on the sale of investments. This increment of nearly 2 cents per share, recorded as an extraordinary item in the accompanying statement of income, brought net income for the year to $3,572,992, or 53 cents per share, as against $3,816,757, or 57 cents per share in 1967. No income tax is payable on 1968 earnings.

Dividends paid in the twelve-month period totalled a little over $1.6 million, or 24 cents per share on the 6,743,710 shares outstanding at December 31, 1968. The previous year's distributions came to 26 cents per share on 6,742,321 shares, for an aggregate of nearly $1.75 million. Shareholders in Canada may take a full 20% depletion allowance on 1968 dividends from CDR in calculating income tax for the year.

One 1968 development may have an impact on the Canadian oil industry as great as or greater than the Leduc discovery of 1947. At Prudhoe Bay, on the north slope of Alaska, the drilling of just two successful wells uncovered oil reserves rumoured to be in the 5 to 10 billion barrel range. This set off a major land rush extending from the discovery area eastward along the Canadian Arctic coast and on through the offshore waters to and including the Canadian Arctic Islands. It seems likely that these areas will be found to contain other vast oil accumulations, perhaps rivalling those of the Middle East. The exploration aimed at tapping them is now under way and increasing rapidly.

Central-Del Rio has good land representation in the Arctic Islands – nearly 450,000 net acres farmed out to Panarctic Oils Ltd. which is carrying out a $20 million exploration program in the archipelago. On Melville Island, where one of the Company's large blocks is located, Panarctic will drill two wells this year. One of them, scheduled to start this month, will go down on the Sabine Peninsula, about 75 miles from the CDR acreage. Later in the program a deep test is to be drilled on our land.

Near Great Slave Lake, in the southern part of the Northwest Territories, the Company has varying interests in three large blocks of land grossing over one million acres. All three will undergo exploratory work this winter. The 420,000-acre Horn Mountain block is under farmout to another company which is obligated to conduct a minimum of $400,000 worth of exploration, including the drilling of a well, to earn a 50% interest. Approximately $360,000 must be spent by a company with which Central-Del Rio has entered into an agreement providing for exploratory work on ¼ million acres of the Mills Lake properties; and CDR will itself drill three stratigraphic tests on the ¼ million acre Pine Point block.

Exploration in Saskatchewan, Alberta and British Columbia will also continue at a good pace in 1969.

Once again we wish to recognize the continued diligent efforts of the employees in serving the interests of the shareholders and to thank them for their work.

On behalf of the Board of Directors,

J. T. Hardy

Calgary, Alberta
March 3, 1969

President

Auditors' Report

TO THE SHAREHOLDERS OF CENTRAL-DEL RIO OILS LIMITED:

We have examined the consolidated balance sheet of Central-Del Rio Oils Limited and its subsidiary company as at December 31, 1968 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co

Calgary, Alberta
February 17, 1969

Chartered Accountants

Central-Del Rio Oils Limited
Consolidated Statement of Retained Earnings

Years ended December 31, 1968 and 1967

	1968	1967
Balance, beginning of year	**$14,218,162**	$12,144,628
Add – Net income	**3,572,992**	3,816,757
	17,791,154	15,961,385
Less – Cash dividends of 24c per share (1967 – 26c per share)	**1,617,159**	1,743,223
Balance, end of year	**$16,173,995**	$14,218,162

Central-Del Rio Oils Limited
Consolidated Statement of Income
Years ended December 31, 1968 and 1967

	1968	1967
Income:		
Crude oil sales, less royalties	**$ 8,124,225**	$ 8,474,294
Other – fees, investment and miscellaneous	**1,139,458**	1,114,813
	9,263,683	9,589,107
Expenses:		
Production and field	**1,897,739**	1,929,656
Administrative and general	**1,026,932**	1,011,370
	2,924,671	2,941,026
Cash generated from operations, before income taxes and extraordinary items	**6,339,012**	6,648,081
Depletion	**2,189,893**	2,139,431
Depreciation	**699,805**	709,713
	2,889,698	2,849,144
Operating income, before income taxes and extraordinary item	**3,449,314**	3,798,937
Refund of income taxes	—	17,820
Net income before extraordinary item	**3,449,314**	3,816,757
Gain on sale of marketable securities	**123,678**	—
Net income	**$ 3,572,992**	$ 3,816,757

Central-Del Rio Oils Limited
Consolidated Balance Sheet – December 31, 1968 and 1967

Assets

	1968	1967
Current Assets:		
Cash	$ 90,663	$ 56,586
Accounts receivable	1,758,302	2,078,569
Short term investments	900,000	1,700,000
Marketable securities, at cost (quoted market value 1968 – $379,518, 1967 – $615,250)	332,627	406,645
Inventory of materials and supplies, at cost	134,199	195,598
Prepaid expenses	26,098	43,308
	3,241,889	4,480,706
Drilling, Reservation and other Deposits	132,532	189,645
Fixed Assets, at cost:		
Lands, leases and well costs	52,981,207	48,887,758
Plant and equipment	8,467,855	8,136,362
	61,449,062	57,024,120
Less – Accumulated depletion and depreciation	18,887,516	17,295,209
	42,561,546	39,728,911
Investment in Affiliated Company, at cost: Minerals Ltd.	688,306	688,306
Other Investments, at cost (Note 2)	426,089	135,914
	$47,050,362	$45,223,482

Liabilities

	1968	1967
Current Liabilities:		
Bank loan, secured	**$ 100,000**	$ —
Accounts payable	**1,347,179**	1,966,785
Accrued wages and holiday pay	**13,653**	17,507
Royalties payable	**121,921**	139,257
	1,582,753	2,123,549
Long Term Liabilities:		
Bank loan, secured	**500,000**	—
Less – Due within one year	**100,000**	—
	400,000	—
Shareholders' Investment:		
Capital stock – Authorized – 10,000,000 shares without nominal or par value		
Issued and fully paid – (Note 4) 6,743,710 shares (December 31, 1967, 6,742,321 shares)	**28,893,614**	28,881,771
Retained earnings, as per consolidated statement attached	**16,173,995**	14,218,162
	45,067,609	43,099,933
	$47,050,362	$45,223,482

Approved on behalf of the Board:

J. A. Hardy Director

D. L. Redman Director

Central-Del Rio Oils Limited
Consolidated Statement of Source and Application of Funds
Years ended December 31, 1968 and 1967

	1968	1967
Source of funds:		
Cash generated from operations, before income taxes and extraordinary item	**$6,339,012**	$6,648,081
Add – Refund of income taxes	—	17,820
Bank loans	**400,00**	—
Proceeds from exercise of stock options	**11,843**	1,094,783
Reduction of drilling, reservation and other deposits	**57,113**	—
Gain on sale of marketable securities	**123,678**	—
	$6,931,646	$7,760,684
Application of funds:		
Capital expenditures:		
Lands, leases and well costs	**$5,123,926**	$6,568,116
Plant and equipment	**598,407**	644,251
	5,722,333	7,212,367
Increase in drilling, reservation and other deposits	—	41,588
Increase in other investments	**290,175**	—
Payment of dividends	**1,617,159**	1,743,223
Decrease in working capital	**(698,021)**	(1,236,494)
	$6,931,646	$7,760,684

Notes to Consolidated Financial Statements

December 31, 1968

NOTE 1 – Accounting Practices:

The companies follow the full cost method of accounting and capitalize all costs of exploring for and developing oil and gas reserves. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-producing properties and costs of drilling both productive and non-productive wells. These costs are amortized using a composite unit of production method based on the total estimated remaining recoverable drilled proven reserves. No gains or losses are ordinarily recognized upon the sale or disposition of oil or gas properties except under circumstances which result in major disposals of reserves.

Costs of plant and equipment are depreciated over the estimated service life of each group of assets.

NOTE 2 – Other Investments:

Included in other investments is an amount of $290,175 which represents an interest in a joint exploration company currently carrying out exploration work on mining claims.

NOTE 3 – Share Options Outstanding:

Options were outstanding at December 31, 1968 granting certain officers and employees the right to purchase 42,027 shares of the company at prices ranging from $7.50 - $19.70 per share. The options are exercisable from time to time on a cumulative basis and expire in the years 1969 to 1973.

NOTE 4 – Capital Stock Issued:

During the year 1,389 shares of the capital stock of the company were issued under share option plans for a cash consideration of $11,842.50.

NOTE 5 – Income Taxes:

For income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts. As a result of claiming excess drilling, exploration and lease acquisition costs for 1968 no income taxes are payable in respect of the income reported for the current year and expenditures remain to be carried forward and applied against future taxable income in the amount of $2,610,000 (drilling, exploration and lease acquisition costs $740,000; undepreciated capital cost $1,870,000).

The companies do not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling exploration and lease acquisition costs because, based on a continuous exploration policy, no material amounts of income taxes will be payable in the foreseeable future. While the accounting policy of the companies conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada, it differs from the tax allocation basis of accounting recommended by The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants, effective for fiscal years commencing on or after January 1, 1968, under which the income tax provision is based on income reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of $1,400,000 ($1,500,000 in 1967) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately $10,500,000 at December 31, 1968.

NOTE 6 – Executive Remuneration:

Remuneration paid to directors and officers during 1968 amounted to $231,673.34.

NOTE 7 – Lease Commitments:

The companies' office premises are leased at an annual rental of $72,984 under an agreement expiring in 1973, with an option to renew for a further five years.

Central-Del Rio Oils Limited
Eight-Year Statistical Review (Note)

Financial	1968
Net oil sales income	$ 8,124,225
Other income	$ 1,139,457
Total income	$ 9,263,682
Production and field expense	$ 1,897,738
Administrative and general expense	$ 1,026,932†
Cash generated from operations, before income taxes	$ 6,339,012
Per share	$ 0.94
Depletion	$ 2,189,893
Depreciation	$ 699,805
Income taxes	$ —
Net income	$ 3,572,992*
Per share	$ 0.53
Cash dividends paid	$ 1,617,159
Per share	$ 0.24
Working capital	$ 1,659,136
Plant, equipment and properties – net	$42,561,546
Other assets	$ 1,246,927
Long term debt	$ 400,000
Shareholders' investment	$45,067,609
Per share	$ 6.68
Ratio of current assets to current liabilities	2.05
Net income as a percentage of shareholders' investment at January 1	7.93
Net income as a percentage of total income	38.57
Cash generated as a percentage of total income	68.43
Operating expenses as a percentage of total income	31.57
Number of shares outstanding	6,743,710
Number of shareholders	7,644
Expenditures on plant and equipment	$ 598,407
Expenditures on lands, exploration and development	$ 5,414,101
Operating	
Net oil sales – barrels	3,474,175
Daily average – barrels	9,492
Net gas sales – Mcf	338,580
Daily average – Mcf	925
Net oil wells	197.12
Net gas wells	16.80
Gross royalty interest wells	60
Gross acreage	5,179,500
Net acreage	3,107,514
Number of employees	123

NOTE –

This Review covers Central-Del Rio Oils Limited and its wholly-owned subsidiary and reflects retroactive adjustments due to the adoption in 1964 of the "full cost" method of accounting. Due to a non-retroactive refinement in 1966 of the Companies' accounting policy, under which non-producing property lease rentals are capitalized rather than expensed, such lease rentals for 1965 and prior years are, in the interest of comparability, added to depletion instead of being shown as a separate item.

"Operating expenses" are the total of production, field, administrative and general expenses.

"Net oil sales" are the total number of barrels sold for the Companies' account, after deduction of royalty oil.

1967	1966	1965	1964	1963	1962	1961
8,474,294	9,035,690	7,844,781	6,527,647	6,829,625	5,796,433	4,974,326
1,114,813	1,171,155	1,013,585	1,221,302	833,065	475,080	321,964
9,589,107	10,206,845	8,858,366	7,748,949	7,662,690	6,271,513	5,296,290
1,929,656	2,012,982	1,546,211	1,432,233	1,301,749	882,599	631,806
1,011,370	959,008	859,346	792,393	680,558	622,259	419,815
6,648,081	7,234,855	6,452,809	5,524,323	5,680,383	4,766,655	4,244,669
0.99	1.10	0.98	0.85	0.88	0.74	0.66
2,139,431	2,535,456	2,399,891	2,651,670	2,567,610	2,404,629	1,504,352
709,713	621,500	609,214	458,353	302,470	339,662	403,480
(17,820)	—	498,835	257,009	536,951	864,045	280,146
3,816,757	4,077,899	3,277,704*	2,157,291	2,273,352	1,158,319	2,056,691
0.57	0.62	0.50	0.33	0.35	0.18	0.32
1,743,223	1,515,781	978,745	977,282	648,504	644,672	643,092
0.26	0.23	0.15	0.15	0.10	0.10	0.10
2,357,157	3,593,651	5,094,703	4,582,886	4,877,119	6,353,303	5,941,921
39,728,911	35,365,688	31,161,258	28,925,590	27,268,618	24,026,441	23,884,115
1,013,865	972,277	933,206	872,652	910,352	937,777	853,752
—	—	—	—	—	—	—
43,099,933	39,931,616	37,189,167	34,381,128	33,056,089	31,317,521	30,679,788
6.39	6.05	5.65	5.28	5.10	4.84	4.77
2.11	2.70	3.37	4.68	2.56	5.69	9.54
9.56	10.96	9.53	6.53	7.26	3.78	7.06
39.80	39.95	35.66	27.84	29.67	18.47	38.83
69.52	70.88	72.84	71.29	74.13	76.00	80.14
30.48	29.12	27.16	28.71	25.87	24.00	19.86
6,742,321	6,603,654	6,580,324	6,515,215	6,487,084	6,465,415	6,435,469
6,889	6,443	5,728	6,190	7,709	7,257	6,673
644,251	840,754	855,481	830,787	2,082,163	241,307	237,455
6,568,116	6,520,632	4,389,292	3,491,235	3,623,329	2,317,103	1,226,547
3,647,354	3,843,505	3,370,055	2,855,465	3,107,815	2,730,476	2,587,242
9,993	10,530	9,233	7,802	8,515	7,481	7,088
—	—	—	—	—	—	—
—	—	—	—	—	—	—
197.59	196.09	183.00	167.60	162.85	158.80	156.60
13.32	10.31	9.95	8.02	7.75	4.50	2.65
51	46	48	39	31	25	21
4,996,923	4,949,226	4,337,925	3,716,949	3,039,755	1,201,544	785,099
2,866,755	3,137,389	2,522,589	1,762,990	1,224,349	658,408	355,600
127	133	124	113	113	69	63

"Net oil wells" and "Net gas wells" are the total of all entire and fractional interests in wells the production from which is owned or partly owned by the Companies, including wells converted to water injection and still capable of being converted to production, but excluding wells contributed by others to units in which the Companies participate and former producing wells which have been abandoned.

"Gross royalty interest wells" are the total number of wells from which the Companies receive cash royalties.

* Includes extraordinary item of $332,835 – gain on sale of marketable securities.

** Includes extraordinary item of $123,678 – gain on sale of marketable securities.

† Includes interest and financing costs of $9,314.

Central-Del Rio Oils Limited

Head Office: 736 Eighth Avenue South West, Calgary 2, Alberta

Directors

R. C. Carlile
Calgary, Alberta

* John F. Hardy
Calgary, Alberta

* M. C. McKinnon
Calgary, Alberta

* Neil McQueen
Phoenix, Arizona

H. M. Pickard
Calgary, Alberta

D. L. Redman
Calgary, Alberta

J. C. Ross
Aden, Alberta

F. V. Stone
Montreal, Quebec

* G. J. van den Berg
Montreal, Quebec

* Member Executive Committee

Officers

Neil McQueen
Chairman of the Board

John F. Hardy
President

M. C. McKinnon
Executive Vice President and General Manager

D. L. Redman
Vice President – Project Economics

C. M. MacInnes
Vice President – Administration

W. F. Mugler
Vice President – Land

V. B. Watson
Vice President and Treasurer

A. Barry Beaven
Secretary

W. G. Holt
Assistant Secretary

W. A. Heater
Assistant Treasurer

Shares Listed

Calgary Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

Registrar and Transfer Agent

Guaranty Trust Company of Canada
Calgary – Montreal – Toronto – Vancouver

Bankers

The Royal Bank of Canada

Counsel

MacKimmie, Matthews, Wood, Phillips & Smith
Barristers and Solicitors – Calgary, Alberta

Auditors

Price Waterhouse & Co.
Chartered Accountants – Calgary, Alberta

Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held at the Palliser Hotel, Calgary, Alberta, at 10 a.m. on Tuesday, April 15, 1969. Notice of meeting, a proxy form and an information circular have been mailed to each registered shareholder with this Report.

CENTRAL-DEL RIO OILS LIMITED "DEVELOPING CANADA'S RESOURCES"

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